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The Tepid Trump Economy

Note

The Commerce Department's GDP report for the second quarter on Thursday shows the economy continues to plod along and is shrugging off the war in Iran. But it's also nothing to brag about.

The U.S. economy grew a tepid 1.5% during the second quarter, driven by consumers and AI investment. Consumer spending contributed 2.1 percentage points, while business investment added 1.2 points. Net exports subtracted a point from GDP, which is a statistical wash since imports flow into consumer spending and investment. A decline in government spending subtracted from growth in the quarter because of the way GDP is calculated, but less government helps the private economy over time.

Equipment purchases and intellectual property accounted for all of the uptick in business investment. AI hyperscalers, which plan to spend upward of $700 billion this year, are turbo-charging demand for computer chips, construction equipment, gas turbines and more. Businesses are also pumping tens of billions into frontier AI models.

Mr. Trump thinks that, with the stock market hitting records and the economy avoiding recession, his tariffs are working wonders. But based on Treasury Secretary Scott Bessent's 3% GDP growth target, the economy is underperforming by half. Last year's tax bill and deregulation would be driving faster growth if not for Mr. Trump's border taxes that raise costs and uncertainty for business.

Full corporate expensing is helping lift investment. His Administration's rollback of burden--some Biden rules is also giving businesses more certainty and running room to invest. The Biden Clean Power plan would have effectively barred the construction of new gas plants, which are essential to powering AI data centers. The doneand- buried electric-vehicle mandate cost auto makers tens of billions of dollars.

Larger tax refunds may also be buoying consumers. Last year's tax bill provided sundry gifts for politically favored groups—for instance, exemptions on overtime pay and tips and a $6,000 deduction for many seniors. These put more money into consumer pockets, but they aren't making Americans feel better about the economy.

Note

One reason is that rising prices continue to erode wage gains and purchasing power. The personal consumption expenditures (PCE) index— the Federal Reserve's preferred inflation measure—excluding food and energy rose only 0.1% in June. This disinflation is a good sign, but the core PCE measure is still up 3.3% over the last 12 months.

Note

Persistent inflation also means Americans are socking away less for retirement or a rainy day. The savings rates in June declined to 2.7%—the lowest since spring of 2022. It exceeded 6% for most of Mr. Trump's first term. Real disposable personal income fell 1.5% in the second quarter, compared to growth of 2% to 4% during his first term before the pandemic.

Some of Mr. Trump's most ardent fans tell us they wish he'd drop his tariff fixation and return to the supply-side policies that produced broadbased prosperity during his first term. Most Americans probably do too.
